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1992 Feature Article - Managed Funds in Australia

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Introduction

Over the last decade, a variety of managed funds has developed in Australia to meet the needs of small and large investors. The development of managed funds has occurred in parallel with changes resulting from the deregulation of the financial system. While the ABS and the Insurance and Superannuation Commission have produced statistics relating to the assets of individual categories of managed funds, no estimate has been made of the total assets of managed funds on a consolidated basis. This article presents the first ABS estimates of the size and growth of the total consolidated assets of managed funds in Australia.

A managed fund is defined as any fund established for the purpose of pooling monies from investors with the intention of investing in financial and non-financial assets. The managed funds discussed in this article are:

- Statutory Funds of Life Insurance Offices,
- Superannuation Funds and Approved Deposit Funds,
- Public Unit Trusts,
- Cash Management Trusts,
- Common Funds and
- Friendly Societies.

A definition of each category of managed funds has been included at the end of this article.

Consolidated Assets Classified by Type of Fund

To arrive at a figure for the total assets of managed funds in Australia, it is necessary to eliminate the cross investment between the various types of funds. For example, investments by superannuation funds in public unit trusts are excluded from the assets of superannuation funds in a consolidated presentation.

Table 1 shows the estimate of total unconsolidated and consolidated assets of managed funds by type of fund as at 30 June 1991.

TABLE 1. ASSETS OF MANAGED FUNDS BY TYPE OF FUND - CONSOLIDATED AND

UNCONSOLIDATED AS AT 30 JUNE 1991, $ MILLION

Type of Fund	Assets Total	Assets Elimination	Assets Consolidation
Statutory Funds of Life offices (a)			
- Superannuation Business (b)	59,018	3,391	55,627
- Ordinary Business	35,314	1,615	33,699
Superannuation & Approved Deposit Funds(b)	77,922	3,380	74,542
Public Unit Trusts	25,680	1,531	24,149
Friendly Societies	7,329	144	7,185
Common Funds	6,645	20	6,625
Cash Management Trusts	5,756	0	5,756
Total	**217,664**	**10,081**	**207,583**

(a) Source: Insurance and Superannuation Commission
(b) Approximately $97 billion of superannuation money was invested through professional fund managers.

Total assets of managed funds on a consolidated basis were valued at $207.6 billion at 30 June 1991. The total value of assets of managed funds representing liabilities of other managed funds and therefore excluded from the consolidated total, was $10.1 billion or 4.6 per cent of total (unconsolidated) assets.

Superannuation business of life offices (33.6 percent) and superannuation funds and approved deposit funds (33.5 per cent) accounted for most of the cross investment. Friendly societies, common funds and cash management trusts had the least cross investment within the managed funds, $164 million or 1.6 per cent of total assets eliminated.

After consolidation, assets of the statutory funds of life insurance offices, together with superannuation funds and approved deposit funds, accounted for $163.9 billion or 78.9 per cent of total assets of managed funds at 30 June 1991. Consolidated assets of $89.3 billion, held in statutory funds of life offices, comprised both superannuation and ordinary business, with superannuation business accounting for over 60 per cent of all assets of the statutory funds of life offices.

At 30 June 1991, assets of public unit trusts on a consolidated basis stood at $24.1 billion or 11.6 per cent of total assets of managed funds. Unit trusts invest in specified assets, such as property, equity, mortgages, public securities, etc. These trusts provide opportunities for investors, particularly small investors, to enter these markets.

All other types of managed funds contributed $19.6 billion to the total consolidated assets of managed funds. This was composed of Friendly Societies $7.2 billion (3.5 per cent), Common Funds $6.6 billion (3.2 per cent) and Cash Management Trusts $5.8 billion (2.8 per cent).

Assets Managed by Professional Fund Managers

Professional fund managers operate within the managed fund industry acting as managers for smaller funds, and agents for other funds, including unit trusts and superannuation funds. While they accept individual portfolios to manage, e.g. for charities, their existence is generally not visible to the small investor. The professional fund managers fall into two groups - those attached to insurance agencies, who also act as agents for outside institutions as well as their own company's clients and those attached to other institutions. Professional fund managers provide a

sophisticated level of service matching assets and liabilities. They act in the main as the managers of pooled funds but also manage clients' investments on an individual portfolio basis.

A considerable proportion of the assets of managed funds, particularly statutory funds of life offices and superannuation funds, is invested through professional fund managers. At 30 June 1991, $155.6 billion or 75 per cent of assets of managed funds, were invested through professional fund managers. Table 2 shows the total unconsolidated assets of each type of managed fund and the amount of these assets invested through professional fund managers.

TABLE 2. ASSETS OF MANAGED FUNDS MANAGED BY PROFESSIONAL FUND MANAGERS AT 30 JUNE 1991, $ MILLION

Type of fund	Unconsolidated assets of managed funds	Assets invested with professional fund managers
Statutory Funds of Life Offices	94,332	90,186
Superannuation and Approved Deposit Funds	77,922	41,342
Public Unit Trusts	25,680	20,724
Friendly Societies	7,329	3,148
Common Funds	6,645	209
Cash Management Trusts	5,756	0
Total	**217,664**	**155,609**

Statutory funds of life offices are the major employers of professional fund managers. They had $90.1 billion invested through fund managers at 30 June 1991 or 95.6 per cent of their total unconsolidated assets. Superannuation funds had $41.3 billion (53.1 per cent) of their assets invested through fund managers and public unit trusts had $20.7 billion (80.7 per cent) so invested.

Professional fund managers also manage money from investors other than managed funds. At 30 June 1991, professional fund managers also invested $17.5 billion on behalf of government, general insurance and other institutions.

Consolidated Assets Classified by Type of Asset

At 30 June 1991, consolidated total assets of managed funds were invested in seven broad categories of assets. Table 3 shows the consolidated total assets of managed funds by type of investment as at 30 June 1988 and 30 June 1991.

TABLE 3. CONSOLIDATED ASSETS OF MANAGED FUNDS BY TYPE OF INVESTMENT AT 30 JUNE 1988 AND 30 JUNE 1991, $MILLION

	Amount of assets			
Type of investment	**30 June 88**	**% of total**	**30 June 91**	**% of total**
Deposit loans and placements	21,348	14.7	28,455	13.7
Short term assets	22,715	15.6	29,216	14.1
Long term assets	22,895	15.7	31,977	15.4
Equities and units in trusts	33,645	23.1	46,513	22.4
Land & Buildings	27,056	18.6	35,747	17.2

Overseas assets	10,882	7.5	24,182	11.6
Other assets	6,877	4.7	11,493	5.5
Total	**148,418**	**100.0**	**207,583**	**100.0**

At 30 June 1991 the majority of assets of managed funds, $183.4 billion (88.4 per cent) was invested in domestic assets, leaving $24.2 billion (11 .6 per cent) invested overseas.

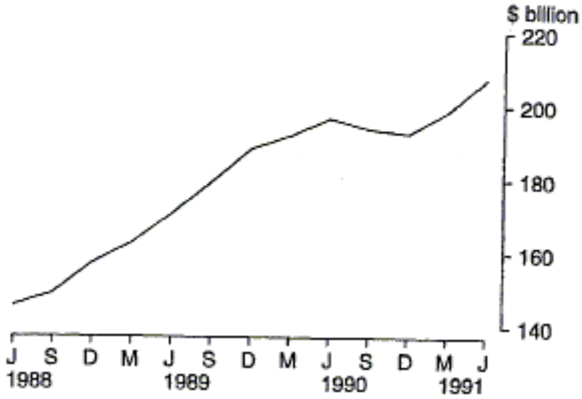
The breakdown of the assets of managed funds by category of investment changed very little between 30 June 1988 and 30 June 1991. The largest relative change occurred in overseas assets, which increased from 7.5 per cent of total assets in mid 1988 to 11.6 per cent in mid 1991. The only other category to increase its share of total assets was “other assets”, which increased from 4.7 per cent in mid 1988 to 5.5 per cent in mid 1991 . “Other assets” comprise mainly accrued income and debtors.

The share of total assets represented by all other categories decreased, including the largest category, equities and units in trusts (which decreased from 23.1 per cent of total consolidated assets in 1988 to 22.4 per cent in 1991).

Growth of Managed Funds

From 30 June 1988 to 30 June 1991, the value of total consolidated assets of managed funds grew by $62.2 billion or 42.8 per cent to $207.6 billion, with an average rate of growth per quarter of three per cent. The following graph shows the value of assets of managed funds on a consolidated basis from mid 1988 to mid 1991.

GRAPH 1. VALUE OF CONSOLIDATED ASSETS OF MANAGED FUNDS AT THE END OF EACH QUARTER



The largest single quarterly increase in managed funds occurred in the December quarter 1988, when total consolidated assets rose five-and-a-half per cent. This increase was due to a rise of over $5 billion in the value of assets of Statutory Funds of Life Offices and a rise of $2 billion in the assets of Public Unit Trusts.

When considering the growth of the assets of managed funds, it should be noted that growth rates reflect not only the net addition of assets to the portfolio of managed funds. The practice of revaluing existing assets in line with the prevailing conditions in financial markets also contributes significantly to the changes in the value of managed funds’ assets.

Up to January 1990, managed funds showed consistent steady growth, growing 17.3 per cent in 1987-88 and 15.5 per cent in 1989-90. The recession resulted in a devaluation of assets, particularly in property, which is reflected in the September and December quarters of 1990,

when the value of total consolidated assets of managed funds fell 1.6 and 0.6 per cent respectively. However, the funds recovered very quickly, with increases in their assets of 3.1 and 4.5 per cent respectively in the March and June quarters 1991.

Although the rate of growth of the value of assets of managed funds has slowed over the last three years, down from an average quarterly growth of 4.1 per cent in 1988-89 to 1.4 per cent during 1990-91, the funds remain a significant element of Australian financial markets. The increasing emphasis on superannuation as the major component of future retirement income is likely to result in the assets of managed funds continuing to grow.

DEFINITIONS

Managed Funds

A managed fund is an arrangement whereby the funds of a number of investors are pooled together to invest in a particular type or mix of assets, with a view to receiving an on-going return. Managed funds do not include funds of a speculative nature that do not offer redemption facilities (e.g. agriculture and film trusts) and funds not established for investment purposes (e.g. health funds, general insurance funds). The following are definitions of the types of managed funds discussed in this article.

Statutory Funds of Life Insurance Offices

Life offices are required by legislation to establish statutory funds for each class of business. Each life office normally operates several statutory funds; however, each statutory fund is required to operate independently from any other statutory fund. Statutory funds pool superannuation monies, annuity monies and the premiums from life/term insurance to form investment pools. Income attributable to a particular statutory fund, whether new business or earned income, must be paid into and become an asset of the appropriate statutory fund and must be kept separate and distinct from the assets of any other statutory fund or the life office. The assets are only available to meet the liabilities and expenses of that particular statutory fund.

Superannuation Funds and Approved Deposit Funds

Superannuation funds are funds which have been constituted to provide retirement benefits for their members. The funds are made up of contributions paid by employers (on behalf of employees) or by employees, or both. The contributions are used by fund managers to purchase investments and the resulting assets finance the retirement payments to fund members.

Approved deposit funds were established in 1984 for recipients of eligible termination payments (ETPs) to preserve their benefits until retirement age. Approved deposit funds accept individual ETPs and pool them into a fund for investment purposes.

Public Unit Trusts

A public unit trust is defined as an arrangement (fund) which is governed by a trust deed between a management company and a trustee; is open to the public for the purpose of investing the pooled funds of unit holders to yield returns in the form of income and/or capital gains; and allows unit holders to dispose of their units within a relatively short period of time. Unit trusts invest in specified assets, such as property, equity, mortgages, public securities, etc. The major distinction between a listed and unlisted unit trust is that a listed unit trust’s units must be listed on Australian stock exchanges and adhere to listing requirements similar to those for company shares.

Cash Management Trusts

A cash management trust is a unit trust which is governed by a trust deed, is open to the public, generally confines its investments to financial securities available through the short-term money market and issues units that are redeemable by the trustee to the unit holder on demand.

Common Funds

Common funds operate similarly to public unit trusts, combining depositors' funds and other funds held in trust in an investment pool with the intention of investing in specific types of securities and/or assets. Common funds comprise cash funds, equity funds, mortgage funds, property funds and "other" funds. However, common funds do not have a trust deed and can only be set up by prescribed trustee companies (who are also the managers of common funds).

Friendly Societies

Founded in 1840, friendly societies were originally formed on the basis of group interests such as craft or religion. They have since evolved to offer a full range of financial services to the public at large, including the operation of investment funds. Friendly societies are registered under relevant State legislation and operate in all States.

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